

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 AGR-10 /120 W

----- 103742

P R 140850Z JAN 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6084

DEPT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

UNCLAS TOKYO 0566

PASS FEDERAL RESERVE, LABOR AND EXIM BANK

E.O. 11652: N/A

TAGS: ECON, EFIN, ELAB, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF JAN7-14

1. SUMMARY: SHARP ADVANCE IN JAPANESE STOCK PRICES THIS WEEK SUGGESTS BUSINESS IS MORE CONFIDENT ABOUT THE ECONOMIC OUTLOOK, YET RECENT INDICATORS PROVIDE NO SUPPORTING EVIDENCE. END SUMMARY.

2. TOKYO STOCK MARKET REBOUNDS. THE TOKYO DOW-JONES STOCK PRICE INDEX HAS BEEN RISING TEADILY SINCE YEAR-END. THE RISE IS ATTRIBUTED TO A WORLDWIDE DROP IN MONEY RATES AND SHARP ADVANCES IN U.S. STOCK PRICES. ON JAN 12, THE TOKYO D-J INDEX REACHED YEN4,580.77, THE HIGHEST VALUE IN ONE-AND-A-HALF YEARS. TRADING VOLUME, AT 636 MIL SHARES, WAS THE HEAVIEST IN TWO YEARS. HIGHER MARGIN REQUIREMENTS WERE UNCLASSIFIED

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IMPOSED THE FOLLOWING DAYS OF 40 PERCENT, UP FROM 30

PERCENT. NEVERTHELESS, STOCK PRICES CONTINUED TO RISE ON JAN 13 AND THE INDEX TEMPORARILY BROKE THROUGH YEN4,600 LEVEL IN ACTIVE TRADING. FROM DEC 24, 1975 TO JAN 12, 1976N TOKYO D-J INDEX HAS INCREASED BY YEN358.37 OR BY 8.5 PERCENT. ANALYSTS NOTED GROWING OPTIMISM ABOUT STOCK MARKET PROSPECTS IN COMING MONTHS WHEN FURTHER EASING OF CREDIT IS EXPECTED.

3. NEW, PRIVATE MACHINERY ORDERS, CONSIDERED AN IMPORTANT LEADING INDICATOR, FELL FOR THE THIRD MONTH IN A ROW, ON SEASONALLY ADJUSTED BASIS. THE 17.2 PERCENT DROP FROM THE PRIOR MONTH BROUGHT ORDERS, EXCLUDING SHIPS (JEI 337), TO LOWEST LEVEL OF THE YEAR. WHILE VALUE OF ORDERS PLACED IN NOV IS COMPARABLE TO VALUES OF MONTHLY ORDERS DURING MID-1972 SLUMP, CURRENT REAL VOLUME OF ORDERS IS WELL BELOW THOSE EARLIER LEVELS. DECLINES IN ORDERS FOR CAPITAL GOODS OVER THE PAST THREE MONTHS CONFIRM PESSIMISM IN JAPAN'S RECENT INVESTMENT INTENTIONS SURVEYS BY EPA AND JAPAN DEVELOPMENT BANK (TOKYO 16,595, 11/19/75).

	(BILLION YEN)	(PCT CH FROM PRIOR MO)
SEPT	222.4	- 3.8
OCT	202.8	- 8.8
NOV	167.9	-17.2

4. AUTO REGISTRATIONS DROPPED 22.1 PERCENT IN DEC ON SEASONALLY ADJUSTED BASIS AND THIS COMES AS NO SURPRISE. SOME DECLINE FROM THE LEVELS RECORDED IN PREVIOUS MONTHS HAD BEEN EXPECTED. HIGHER PRICES RESULTING FROM ANTI-POLLUTION TAXES AND REGULATIONS WHICH TOOK EFFECT IN EARLY DEC MAY HAVE CAUSED SOME ANTICIPATORY BUYING IN OCT AND NOV. DESPITE DEC DROP, TOTAL REGISTRATIONS FOR 1975 WERE UP 19.7 PERCENT FROM PREVIOUS YEAR, AND ONLY 6.7 PERCENT LESS THAN IN RECORD YEAR OF 1973.

	UNADJUSTED (1,000 CARS)	SEASONALLY ADJUSTED (1,000 CARS) (PCT CH FROM PRIOR MO)
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OCT	260.7	236.5	23.9
NOV	246.7	241.6	2.2
DEC	235.8	188.2	-22.1

5. LABOR MARKET CONDITION CONTINUED TO DETERIORATE IN NOV. JOB OFFERS TO JOB APPLICANTS RATIO (JEI 385, S.A.) FELL FURTHER TO 0.52 IN NOV, HITTING A NEW LOW IN THE PAST 17 YEARS. THE NUMBER OF FULLY UNEMPLOYED PERSONS

(JEI 378, S.A.), AND THE UNEMPLOYMENT RATE (JEI 379, S.A.), HAVE REMAINED UNCHANGED FROM OCT OF 1.16 MIL AND 2.21 PERCENT, RESPECTIVELY. (NOTE: PRIME MINISTER'S OFFICE USES DIFFERENT SEASONAL ADJUSTMENT FACTORS FROM EPA. NOV UNEMPLOYMENT RATE, AS REPORTED BY PRIME MINISTER'S OFFICE, WAS 2.12 PERCENT, AND IS OFTEN CITED BY THE PRESS.)

	JOB OFFERS TO APPLI-	UNEMPLOYED, S.A.	
	CANTS' RATIO, S.A.	(1,000)	(RATE)
SEPT	0.55	1,050	1.99
OCT	0.53	1,160	2.22
NOV	0.52	1,160	2.21

6. JOB PROSPECTS REMAIN GLOOMY IN VIEW OF SOW RECOVERY OF JAPANESE ECONOMY. WHILE IT IS TRUE THAT LAY-OFF RATE (JEI 392) HAS BEEN DECLINING, NEW JOB OFFERS (JEI 387) HAVE NOT YET IMPROVED. EMPLOYMENT IN NOV 1975 IS VIRTUALLY UNCHANGED FROM YEAR EARLIER, WHEREAS NUMBER OF UNEMPLOYED IS UP 270,000, AND WORKING AGE POPULATION HAS RISEN BY 920,000. BECAUSE OF LACK OF JOB OPPORTUNITIES, THE NUMBER OF "UNDER-EMPLOYED" HAS SUBSTANTIALLY INCREASED. EMBASSY HAS AGAIN ADJUSTED PUBLISHED NOV LABOR FORCE FIGURES FOR CYCLICAL VARIATION IN THE LABOR FORCE PARTICIPATION RATE (SEE TOKYO A-41, 1/29/75). ON THAT BASIS, THE NUMBER OF UNEMPLOYED IS CALCULATED AT 2.3 MIL (RATHER THAN 0.97 MIL, AS PUBLISHED), AND THOSE WITHOUT WORK AT 4.3 PERCENT OF CYCLICALLY ADJUSTED LABOR FORCE (VERSUS 1.8 PERCENT PUBLISHED UNEMPLOYMENT RATE). THE BIGGEST DIFFERENCE IS FOR WOMEN WHERE THE CYCLICALLY ADJUSTED UNEMPLOYMENT RATE IS CALCULATED AT 7.2 PERCENT (1.6 PERCENT PUBLISHED), COMPARED WITH AN ACTUAL RATE OF ONLY 0.9 PERCENT IN NOV 1973 AT THE PEAK OF THE BOOM. FOR MEN, ADJUSTED UNCLASSIFIED

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RATE IN NOV 1975 OF 2.4 PERCENT IS ONLY SLIGHTLY HIGHER THAN 2.0 PERCENT PUBLISHED.

7. TWO MAJOR TRADING COMPANIES, ATAKA CO. AND C. ITOH AND CO., HAVE ANNOUNCED A BUSINESS TIE-UP THAT MAY LEAD TO A MERGER OF THE TWO FIRMS. THE MOVE APPEARS TO BE A VIRTUAL RESCUE OPERATION FOR THE FINANCIALLY TROUBLED ATAKA, WHOSE U.S. SUBSIDIARY, ATAKA AMERICA, IS HAVING DIFFICULTY RECOVERING \$200 MIL IN LOANS TO BANKRUPT NEWFOUNDLAND REFINERY OF CANADA. A MERGER OF ATAKA AND C. ITOH, THE NATION'S 9TH AND 4TH LARGEST TRADING COMPANIES RESPECTIVELY, WOULD CREATE A THIRD FIRM NEARLY AS BIG AS JAPAN'S TRADING GIANTS, MITSUBISHI CORP. AND MITSUI AND CO. HOWEVER, CREATION OF ANOTHER FIRM OF THIS SIZE WOULD CREATE FURTHER PROB-

LEMS IN TRYING TO APPLY A 20 PERCENT CAPITAL LOAN RESTRICTION ON JAPANESE BANKS. (SEE TOKYO A-756, 12/30/4.) THE PROPOSED TIE-UP WOULD MERGE TWO RELATIVELY WEAK COMPANIES, SINCE THEY WERE THE ONLY FIRMS AMONG JAPAN'S 10 LARGEST TRADING COMPANIES TO RECORD PRE-TAX LOSSES FOR THE RECENT APRIL-SEPT 1975 ACCOUNTING PERIOD. ASIDE FROM PROBLEMS WITH ITS U.S. SUBSIDIARY, ATAKA HAS SUFFERED HEAVY LOSSES IN ITS LUMBER TRADING OPERATIONS AND A SHARP DECLINE IN PROFITS EARNED IN ITS STEEL BUSINESS. C. ITOH HAS EXPERIENCED LARGE LOSSES DURING THE PAST YEAR IN ITS TEXTILEMARKETING OPERATION.

8. WHOLESALE PRICES ROSE 0.6 PERCENT IN DEC FOR 6TH CONSECUTIVE MONTHLY INCREASE. ALTHOUGH DEC FIGURE FOR WPI (JEI 471) WAS ONLY 1.1 PERCENT ABOVE YEAR-EARLIER LEVEL, ANNUAL RATE OF INCREASE DURING PAST 6 MONTHS WAS 4.5 PERCENT. DEC RISE WAS PACED BY SCRAP IRON AND OTHER FERROUS METALS (UP 4.7 PERCENT), AND OIL AND COAL PRODUCTS (UP 2.0 PERCENT), TOBACCO AND FOODSTUFFS (UP 1.3 PERCENT), AND STEEL (UP 1.2 PERCENT). PRICES OF NON-FERROUS METALS AND ELECTRICAL APPLIANCES DIPPED SLIGHTLY.

	INDEX (NSA)	(PCT CH FROM PRIOR MO)
OCT	157.9	0.4

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NOV	158.3	0.3
DEC	159.2	0.6

9. AT PRESS CONFERENCE ON JAN 13, BOJ GOVERNOR MORINAGA IMPLIED POSSIBILITY OF LOWERING THE RESERVE REQUIREMENT AGAIN (FOLLOWING LAST RATE CUT ON NOV 16, 1975). BOJ REPORTEDLY INTENDS TO LOWER RESERVE REQUIREMENT RATIO BY 0.25 PERCENT OR MORE DURING FEB, TO 1.75 PERCENT ON TIME DEPOSITS. (INFLUENTIAL LOCAL PRESS HERE PREDICTED BOJ WILL MAKE ANNOUNCEMENT EITHER ON FEB 1 OR 16 ON RESERVE REQUIREMENT RATE CUT). THAT WILL FREE-UP AN ESTIMATED 300 BIL YEN FOR COMMERCIAL BANKS. MONEY MARKET IS EXPECTED TO BE TIGHT IN FEB AND BOJ WANTS FURTHER MONETARY EASE, ACCORDING TO PRESS REPORTS. ON OTHER HAND, BOTH BOJ GOVERNOR MORINAGA AND FIN MIN OHIRA DENIED POSSIBILITY OF ANOTHER DISCOUNT RATE CUT WITHOUT A REDUCTION IN DEPOSIT RATES, WHICH IS CONSIDERED UNDESIRABLE AT THE MOMENT. MORINAGA WELCOMED RECENT DECLINES IN CALL AND BILL RATES AS WELL AS BOND YIELDS AND SAID BOJ WILL PROMOTE FURTHER CUTS IN CALL RATE IN ORDER TO HELP LOWER THE "EFFECTIVE" INTEREST RATES CHARGED ON BANK LOANS.

HODGSON

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## Message Attributes

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